

Message Text

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ACTION EB-07

INFO OCT-01 EA-06 ISO-00 AGR-05 CIAE-00 COME-00 INR-07

LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01 FRB-03

OMB-01 L-03 SS-15 NSC-05 H-02 /066 W

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R 180958Z JUL 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 5617

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E. O. 11652: NA

TAGS: EAGR, RP

SUBJECT: COTTON CONTRACT PROBLEMS

PASS USDA/FAS/K. STEPHENS/CEP AND D. WILLIAMS/COT/FMD

STATE/J. WILLIAMS/F&TD

1. DBP HAS PLACED THREE PERIOD I L/C APPLICATIONS WITH U.S. BANKS FOR SOLID MILLS INVOLVING 3,000 BALES. ONE THOUSAND EACH FOR ALLENBERG, COOK, AND C. ITOH. EACH OF THESE L/C'S CONTAIN THE FOLLOWING SPECIAL INSTRUCTION: "CERTIFICATE FROM AN INDEPENDENT REPUTABLE SURVEYOR CERTIFYING AS TO THE CORRECTNESS OF THE WEIGHT AND QUALITY IS STRICTLY REQUIRED".

2. WE DO NOT KNOW WHAT PARTICULAR DEVELOPMENTS MAY HAVE MOTIVATED SOLID MILLS TO ADD THIS SPECIAL INSTRUCTION TO THE L/C'S. UPON QUESTIONING DBP ABOUT WHY THEY ALLOWED THE PROVISION TO BE INCLUDED IN THE L/C APPLICATION, THE ONLY EXPLANATION OFFERED WAS THAT SOLID WOULD NOT AGREE TO THE L/C OPENING WITHOUT INCLUSION OF THE PROVISION. AGATTACHE HAS DISCUSSED REMOVAL OF SPECIAL INSTRUCTIONS WITH DBP POINTING OUT A) INSUFFICIENT TIME ON PART OF SHIPPER TO COMPLY BEFORE EXPIRATION OF L/C'S; B) INSTRUCTIONS NOT PART OF CONTRACT AND IMPOSED WITHOUT CONSENT OF SHIPPER; AND (C) ADDITIONAL COST INVOLVED, ESTIMATED AT \$15.00 PER BALE. RE POINT C, SOLID HAS INDICATED

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IT WILL PAY ONE-HALF OF THESE COSTS.

3. WHILE COTTON TRADERS UNDERSTANDABLY HAVE NOT SEEN FIT TO DISCUSS WITH US SUCH MATTERS AS INDIVIDUAL SUPPLIER STRATEGY FOR DEALING WITH CARRYING CHARGES, SOME TRADERS HAVE ACKNOLEDGED IN PROVATE DISCUSSIONS THAT ONE WAY TO COLLECT SOME OF THE CARRYING CHARGES WOULD BE BY SUPPLYING SHORT WEIGHTS. WHILE IT SEEMS AN OPEN SECRET THAT SUCH TACTICS MIGHT BE EMPLOYED, NO TRADER HAS EVER SAID, OR EVEN IMPLIED, THAT HIS SUPPLIER WOULD RESORT TO SUCH TACTICS. WE FEAR, HOWEVER, THAT THE INTRODUCTION OF THE NEW LC LANGUAGE BRINGS VERY CLOSE THE NEED FOR US SUPPLIERS TO PROVIDE, PERHAPS ACROSS THE BOARD ASSURANCES ON THE SUBJECT OF SHORT WEIGHTS.

4. MISSION HAS NOT BEEN ASKED BY TWO SUPPLIERS TO SEEK REMOVAL OF THE NEW LC LANGUAGE. BEYOND AN INQUIRY TO DETERMINE THE FACTS AND THE GENERAL ARGUMENTS MADE TO DBP, AS CITED ABOVE, MISSION HAS NOT, REPEAT NOT, GOTTEN INTO THIS MATTTTER AND WE DO NOT, REPEAT NOT BELIEVE TI IS APPROPRIATE TO GET INTO SUCH CONTRACTUAL DETAILS. WHILE PREPARED TO ASIST IN ANY REASONABLE WAY TO ASSSURE COMPLIANCE WITH THE DBP LETTER OF ASSURANCE, WE BELIEVE, THEREFORE, THAT THIS ISSUE SHOULD BE PUT ENTIRELY IN THE HANDS OF US EXPORTERS TO RESOLVE.

5. MISSION WISHES CALL PARTICULAR ATTENTION TO FACT THAT DBP LETTER OF ASSURANCE WAS NEGOTIATED ON THE PREMISE THAT ALL PARTIES CONCERNED WOULD PLAY IT STRAIGHT. WE ASSUME THAT MEANS NIX ON ANY BUT INADVERTENT DEPARTURE FROM CONTRACT SPECIFICATIONS ON QUALITY. IF THE RUMORS OF INTENT TO SHORT SHIP ARE TRUE, OUR SUPPLIERS SHOULD BE ADVISED BY DEPARTMENT AND USDA THAT CHANCES OF KEEPING DBP IN LINE ARE CLOSE TO ZERO. ON THE OTHER HAND, IF DBP CAN BE PERSUADED THAT ALLEGATINS OF POSSIBLE QUALITY PROBLEMS ARE A MERE DODGE ON PART OF LOCAL MILLS, IT MAY BE POSSIBLE TO OBTAIN AGREEMENT TO REMOVE THE NEW LANGUAGE FROM LC'S.

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6. APPRECIATE WASHINGTON COMMENTS, SUGGESTIONS AND GUIDANCE AS SOON AS POSSIBLE.
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